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ABSTRACT

This booklet, written with the beginning investor in mind, will help readers set clear-cut financial goals and develop a savings and investment program for achieving them. It is suitable for personal use by adults or for classroom use in junior high through adult consumer education classes. The booklet provides information on a variety of savings and investment options as well as some basic guidelines on investing money to meet present and future needs. Specific topics covered by this guide include the following: the dynamics of the financial world; building financial security; financial institutions, products, and services; investments for growth and income; investing in yourself; retirement planning; and estate planning. A glossary of savings and investment terms and a list of suggested resources are included in the guide. (KC)

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money management

Your Savings and Investment Dollar

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To The Reader

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money management

Your Savings and Investment Dollar

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Introduction

The dynamics of today's financial world have changed dramatically, due to the deregulation of the financial industry, a fluctuating economy and new computer technology. From a consumer's viewpoint, there are far more investment decisions to be made and a wider range of investment opportunities available.

This booklet, written with the beginning investor in mind, will help readers set clear-cut financial goals and develop a savings and investment program for achieving them. It provides information on a variety of savings and investment options as well as some basic guidelines on investing money to best meet present and future needs.

When it comes to saving and investing, there is no easy answer. But with some self-discipline and a willingness to learn, financial independence can be attained by almost everyone.

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The Dynamics of the Financial World

The combined effects of inflation, government deregulation and computer technology have revolutionized the banking industry, making the 80s an era of financial change. Today financial institutions offer an array of savings and investment options, competitive interest rates and a variety of financial services, all of which make financial matters far more complex.

Being aware of what has transpired gives you a better understanding of the financial marketplace. It will also help you to shop more effectively for financial products and services. This section highlights those changes in the U.S. which have had the greatest impact on savings and investments.

Economic Conditions

Consumer trends in spending, borrowing, saving and investing reflect changes in the economy. For example, when buying power shrinks due to inflation, consumers tend to spend less on nonessential items—eating out, luxury vacations and fancy automobiles. They switch to less expensive alternatives and shop for greater value and better quality.

In an effort to keep ahead of the shrinking dollar, many consumers save less and increase their use of credit during inflationary periods. They also purchase expensive durable goods such as large appliances, anticipating even higher prices.

Soaring inflation and high interest rates are a real boon to money market funds. During the double-digit inflation era, investors collectively poured billions of dollars into these funds as a hedge against inflation. More speculative investors stepped up their demands for gold, silver and other precious metals, since these tangible items tend to increase in value during inflationary times.

During periods of low inflation the opposite is true. With lower prices on the horizon, consumers do not feel compelled to "buy now." Instead they tend to become more prudent shoppers, who watch for sales and look for discounts. In addition, investors may switch their assets out of money market funds, which pay lower yields during disinflation, into stocks and bonds which have a greater potential for appreciation.

Financial Legislation

When interest rates surged to the double-digit level, financial institutions, whose interest rates are regulated by the government, were unable to compete with the higher interest paid by money market funds. As a result, legislation was passed that allowed financial institutions to offer new products and higher yields in the hope of attracting consumer dollars. Deregulation of the financial industry also permitted financial institutions to offer a broader range of services. For example, commercial banks were traditionally the only institutions that could offer checking accounts. Now most financial institutions offer regular checking and interest-bearing checking accounts. Other legislative provisions allowed banks to engage in brokerage activities—on a limited basis—and savings and loans to provide credit-card services.

The Financial Industry

Many financial institutions, brokerage firms and major retailers provide a number of financial services under one roof for greater customer convenience. These one-stop financial centers or financial supermarkets, as they are sometimes called, combine the functions of a financial institution, insurance company, brokerage firm and credit-card company. Some of the services provided include:

- brokerage services
- lines of credit
- credit cards
- money-market mutual funds
- check-writing privileges
- investment counseling
- tax preparation
- real estate services
- insurance

While financial supermarkets are certainly a trend, traditional banking institutions are here to stay. Before deciding where to conduct your financial affairs, it's important to shop comparatively, since the costs of financial services and initial investment requirements do vary between institutions.

Computer Technology

Computer technology has brought about several changes in the way that financial transactions are handled. Electronic funds transfer systems (EFTS) make it possible for consumers to conduct financial affairs more conveniently. For example, some consumers can pay bills by telephone, deposit paychecks, Social Security checks or other payments directly into their bank accounts and authorize automatic withdrawals.

Automatic teller machines (ATMs) offer 24-hour service, seven days a week, which allow consumers to cash checks or deposit money during nonbanking hours. These terminals are located at airports, supermarkets and shopping centers, providing additional convenience.

Home-banking services are also available on a limited basis to U.S. households with home computers equipped with a video display. Consumers can now pay bills, transfer funds between accounts, obtain balance information, buy stocks and perform other financial transactions without leaving the comforts of home.

Building Financial Security

What is financial security? It means different things to different people. For some it represents retirement savings, for others it is owning a home or having an emergency fund. Basically, it is the peace of mind which comes with being financially prepared for tomorrow and the years to come.

To become financially secure, you need to set goals and formulate a plan for achieving them. In addition, you will want to protect yourself against economic risks—unemployment, medical emergencies, disability, loss of property—with proper insurance coverage.

Goal Setting

The first step toward financial security is to identify your personal and/or family financial goals. Goals are based on your values—things that are most important to you. Short-term goals are things that you want soon—in the next few weeks or months—such as paying off a small debt, buying a washer or dryer or saving for next year's vacation. Long-term goals are things that you want later—over the next several years. Buying a home, educating children or providing for your retirement are just a few major examples.

Using the chart on page 6 as a guide, write down your goals. Committing them to paper helps you to focus on what is most important to you. (If there are two or more people in your household, everyone should take part in establishing goals.)

Then number each goal according to its priority. If you don't already have an emergency fund equal to two to three months' net income, this should be a top priority. Next estimate the

approximate cost of each goal and set a target date for achieving it. Do not forget to allow for inflation. It can affect the cost of your goals, especially if they are long term. How much money needs to be set aside each month to reach your goals? Which goals, if any, must be postponed?

Goals change as needs, wants and circumstances are altered. For example, in your early years, short-term goals may be to establish credit or obtain adequate insurance. During your middle years, increasing emphasis may be on planning for retirement or educating children. For those near retirement age, travel might be a primary goal. Whatever the case, attaining specific goals is easier when you plan, because future needs and wants are not foregone in an effort to meet everyday expenses.

Financial Planning

Why is financial planning important? It is the key to reaching your financial goals. With a written plan and some self-discipline your money is more apt to do what you want it to do. Planning helps you to keep track of your spending, control expenses, and plan your savings and investments. But before you begin a plan, it helps to determine where you stand financially.

Your Net Worth Statement

How much are you worth in dollars and cents? To find out, you need to complete a net worth statement. This is a financial inventory of all your personal assets (that which you own) and liabilities (that which you owe). It serves as a record of your financial progress and can help you plan your future savings and investment program. By determining your net worth on an annual or semiannual basis, you know whether it is increasing, decreasing, or remaining the same, and if you're keeping pace with the rate of inflation. When you apply for a loan, this information will help lenders to determine if you are creditworthy. It is also important when evaluating insurance needs.

Using the chart on page 7, estimate your net worth. Begin by listing the financial resources which you can readily convert to cash. These would include money in checking and savings accounts, money market funds, etc. To determine the cash value of other assets, those not easily converted into cash, a little investigating is in order. Check the real estate section of the newspaper to get an idea of what houses are selling for in your neighborhood, the financial section for information on your investments and the automobile section for a rough estimate of the value of your car. In figuring the cash value of furniture and appliances, list them at the actual price you think they would bring if sold today.

Next list your financial liabilities such as installment debts, student or automobile loans. Then subtract your total liabilities from your total assets. The balance is your total net worth. Be sure to date each net worth statement, so you can check your progress in six months to a year.

Developing a Financial Plan

A financial plan can help you to analyze your current spending and saving habits. To make it realistic, it should be based on present income and projected outgo. First, total your income, then estimate your expenses. Refer to cancelled checks, statements and receipts if necessary. How much do you need to meet your fixed expenses—rent or mortgage payments, utilities, installment debts? How much must you set aside for flexible expenses—food, recreation, transportation?*

FINANCIAL GOALS

	Estimated Cost	Target Date	Current Savings	Amount To Be Saved Monthly
Emergency Fund	$		$	$
Short-term Goals				
	$		$	$
Long-term Goals				
	$		$	$

*For additional information on setting up an overall spending and savings plan, see the MMI booklet, YOUR FINANCIAL PLAN, listed on page 36.

How much income can you allocate toward savings and investments? Given your present financial situation, what portion of your investments needs to be kept liquid? In other words, part of your portfolio should easily be converted into cash but highly stable in price. Remember, keep your plan flexible. As needs and circumstances change, it will have to be adjusted accordingly.

Insurance

The purpose of insurance is to protect policyholders and their dependents from financial loss in the event of severe property damage, illness, accident, disability or death. Financial planning is not complete, therefore, until adequate protection against such unexpected events has been arranged.

Smart consumers purchase a base amount of life, health, disability and property insurance *before* investing, because protection against financial hardships takes precedence over efforts to increase income. Your aim should be to buy the types and amounts of reasonably priced insurance, from reputable firms, that will best meet your needs. Reassess your insurance needs and coverage regularly to be sure you are neither overinsured or underinsured.

This brief overview will center upon life insurance, but it is vital to say a few words about health and disability income insurance first. Young people need reminding that they are no longer protected by their parents' policies when they take their first full-time jobs. Unfortunately, one can hardly afford to be without health and disability insurance today, when an accident can necessitate major surgery and costly hospitalization, not to mention a lengthy convalescence.

YOUR NET WORTH STATEMENT

What You Own	Date
Cash in checking accounts	$
Cash in savings accounts	
Money market funds	
Certificates of deposit	
Current value of government savings bonds	
Cash surrender value of insurance policies	
Equity in pensions	
Equity in profit-sharing plans	
Current value of annuities	
Loans owed you	
Retirement funds	
Individual Retirement Accounts (U.S.)	
Keogh Account (U.S.)	
Registered Retirement Savings Plan (Canada)	
Tax refunds due	
Cash value of ownership in a business	
Market value of securities	
Bonds	
Stocks	
Mutual funds	
Investment trusts	
Cash value of personal properties	
Home and other real estate	
Automobile(s)	
Furniture	
Appliances	
Other (furs, jewelry, antiques, fine art, etc.)	
Other assets	
_____	
_____	
Total Assets	$

What You Owe	
Mortgage debt (home and other real estate)	
Installment debts (balance due on loans outstanding)	
Automobile(s)	
Furniture and appliances	
Second mortgage	
Other	
Personal loans	
Current bills outstanding	
Credit cards (department store accounts, bank cards and gasoline cards)	
_____	
_____	
_____	
Medical and dental	
Other	
Taxes due	
Other liabilities	
_____	
_____	
Total Liabilities	$
Your Net Worth (Assets Minus Liabilities)	$

Health and disability insurance will probably provide your best chance of keeping afloat financially if you develop any serious health problems. For young people, disability is more likely (and more costly) than death. Because both are very expensive when purchased individually, job applicants should check the coverage offered under group employee benefit programs.

The Basic Types of Life Insurance

There are three basic types of life insurance—term, whole life and universal life. Some stress protection while others emphasize savings, but many different combinations are available. Your best choice is one which fits your family situation and family needs.

Term insurance provides the simplest, least expensive coverage. It protects the policyholder for a specified period—from one to five years or longer—after which it can be renewed at a higher premium. Term insurance costs less than other policies because it has no savings element and pays benefits only if the insured dies during the period covered. It generally provides the greatest amount of pure protection for the premium dollar, making it an especially good value for young families. Term insurance enthusiasts recommend that people buy term instead of other types of life insurance, then put the money they save on premiums into some good investments. Term insurance is available in several different forms. Some policies may be renewable as well as convertible to whole life without the necessity of a medical exam.

Whole life insurance, also called *cash value* or *straight life* insurance, costs more than term, because it combines lifetime protection with a savings feature. Its fixed premium may be paid either lifelong or for a limited period. In addition, whole life insurance develops a *cash surrender value*, a guaranteed amount to be paid to the policyholder if the policy is discontinued. Using it as collateral, the policyholder can borrow from the company up to the amount of the cash value, at a relatively low interest rate. Any money owed at the time of the policyholder's death would be deducted from the benefits, however.

The primary advantage to whole life insurance is that the premiums remain level, while the cost of term insurance increases each time the policy is renewed. In addition, whole life insurance protects your future insurability.

A variety of life insurance policies have evolved from the traditional whole life policy: modified life, variable life, adjustable life, combination plans, and the newest and best known of these variations, universal life insurance.

Universal life insurance is an adjustable combination of permanent lifetime insurance protection with a short-term, high-yield, tax-deferred savings vehicle, tied to current money market rates. The cash value becomes an investment fund; its increase or decrease reflects the amount of interest earned on the short-term investments. The premiums are drawn once monthly from this fund. This kind of policy was designed so that policyholders, like other investors, could benefit from potential high returns on their money. The universal life policy is flexible: policyholders can pay premiums at any time in any amount (subject to certain minimums), and can raise the coverage and withdraw cash within certain guidelines without its being considered a loan. They can also change the amount of the death benefit quite easily.

Buying Insurance

Once you have some understanding of the life insurance plans available and have determined the amount of coverage you need and can afford, you will want to compare the costs of *similar* policies. To do so, you must consider several factors in addition to the amount of each premium involved: the cash value of the policy; the dividends it would pay, if any; and the interest the premiums would have earned had they been invested during the term of the policy. Insurance companies now provide *interest-adjusted cost indexes* which show, at various interest rates, the true cost per $1,000 of life insurance over 10- and 20-year periods. Ask your agent to provide you with the index numbers; the lower one is generally a better buy. However, small differences in the numbers may be offset by the varying benefits offered.

Employer-sponsored group insurance programs are almost always the best buy from a cost standpoint. Frequently the employer pays a substantial portion of the premiums, and the employee then pays his/her share with after-tax dollars. The group plans have the characteristics of individual term life insurance policies, except that generally no evidence of insurability is needed. Usually they can be converted to an individual policy if you give up the job.

Your Savings/ Investment Program

In times past, those who put money into passbook accounts and government savings bonds were considered savers and those who purchased stocks, bonds, and mutual funds were investors. Saving was considered risk-free; investing was regarded as speculative. But in today's world with its competitive interest rates and variety of financial products, the terms "saving" and "investing" can be used almost interchangeably.

Personal savings are of vital importance to the economy. Money invested in the stock market, deposited into bank accounts or money-market mutual funds, insurance companies and pension plans, provides the capital needed by companies to build new factories, purchase raw materials and create more jobs. When you purchase government-backed investments—Treasury bills and municipal bonds—this raises funds for such expenditures as new schools and roads.

Why is it important to save? Individuals with an adequate savings program based on current needs and income can:

- reach financial goals
- cover emergency expenses
- plan for major purchases
- provide retirement income
- provide an estate for dependents

Developing the Savings Habit

Naturally no two savings plans will be exactly the same. Each of us has different needs, wants and resources. Our tolerance for risk also varies. However, every plan should meet certain criteria. A good basic savings program should include:

- a specific amount set aside on a regular basis—weekly, monthly, etc.
- an emergency fund equal to at least two to three months' net income
- adequate insurance coverage
- sufficient income for maintaining a home
- income remaining for other investments

To make savings a habit, it should be a fixed expense in your financial plan. Do not wait until the end of the month to place whatever remains into a savings program. In most cases you will find there is nothing left. Instead, pay yourself first as you would pay your rent or mortgage, utilities or car payment.

Your Money and Inflation

Putting your money to work for you is one way of keeping pace with inflation. What is inflation? It is a substantial rise in the general price level of all goods and services. As prices rise, the buying power of the dollar declines. For example, if a dollar buys a certain number of widgets today, but only half as many ten years from now, you have actually lost real purchasing power.

To manage your finances effectively, you must be aware of current economic conditions, stay alert to investment opportunities and remain flexible. Remember, if the rate of inflation is four percent, to preserve the buying power of your capital you will need to earn at least a four percent return after taxes just to break even.

Investment Characteristics

Some investments are better suited for short-term goals, others for long-range ones. For example, if your goal is to establish an emergency fund, you would want that cash to be readily available. On the other hand, if your objective is retirement income, the rate of interest, tax savings and safety would probably be top priorities.

Consider the following factors. Which ones are of primary importance to you?

- **Security of principal.** This relates to the preservation of your original investment. Because Treasury bills are backed by the U.S. government, they are considered very secure, low-risk investments. Stocks, on the other hand, involve a greater risk because prices tend to fluctuate more. Keep in mind that low-risk investments generally do not offer the highest return on your investment.
- **Return.** The money you earn on your investment is your return. It may be in the form of interest, dividends or profits. Usually the higher the return, the greater the risk. When the rate of return is expressed as a percentage of your investment, it is referred to as yield.
- **Liquidity.** The ease with which you can convert an asset into cash and still retain your initial investment.
- **Convenience.** If the time and energy you are willing to devote to your investments are limited, you will probably select those which are easiest to handle.
- **Tax status.** Investments such as IRAs and Keogh accounts in the U.S. and RRSPs in Canada defer taxable income, although certain restrictions do apply. Tax-free investments such as U.S. municipal bonds also minimize current taxable income.

Dealing with Risks

Since almost every investment involves some kind of risk, analyze your personal profile. The investments which are best for you will depend on the following:

- your age
- your income
- your ability to handle risk (emotionally and financially)
- your personal circumstances
- how soon you need the money

For example, a young person earning an average income with no family obligations and little debt can afford to take a greater risk; whereas someone older who is planning to retire in the near future may want to take a more conservative approach.

Depending on your temperament, you may find you can afford to take a risk but would be awake nights with worry. On the other hand, if you are drawn toward taking chances, try to limit the speculative portion of your portfolio to a specific percentage to minimize losses.

Many investors make the mistake of falling in love with one type of investment and not diversifying their assets. To minimize losses, your portfolio should consist of at least two kinds of investments which perform differently during a particular market. For example, when interest rates are high, stocks are usually down; money market funds, on the other hand, tend to do well. Diversification is not limited to just types of investments. Assets should be spread among different companies and/or industries as well.

Using Professionals

If as an investor you lack experience, time and/or interest in handling your own portfolio, seeking the advice of a professional broker or financial planner may be in your best interest. Although some firms prefer to deal with people who have $10,000 or more to invest, many companies offer services to the smaller investor as well.

When choosing a broker, check with friends and family members for referrals or look in the Yellow Pages. Then visit several brokerage offices. Were you treated in a friendly, professional manner? Ask for materials that describe the types of services they offer. Try to determine your broker's track record, area of expertise, length of time in business and sources of information. A wise broker will also query you on your financial situation, goals, assets, liabilities and other investments. Choose carefully; you will be making investment decisions based on his or her recommendations.

In addition to regular brokerage services, some firms offer asset management accounts. This type of service provides an automatic line of credit, check-writing privileges, the use of a major credit or debit card and the assurance that idle cash is switched into a money market fund on a regular basis. Initial investment requirements vary, as do the annual management fees.

Discount brokers are a no-frills operation for investors. They often charge smaller commissions because they only trade securities and do not offer investment advice. When you already know that you want to buy or sell so many shares of XYZ stock, a discount broker can save you money. However, if you need some investment guidance, a regular broker would be best for you.

Financial planners also offer investment advice. After collecting pertinent financial data from you, he or she will help you to identify financial objectives, design a master investment plan and assist you in implementing the plan. When choosing a financial planner, interview several candidates. Ask friends, associates, your accountant or lawyer or check the Yellow Pages under "Financial Planning Consultants."

Look for a planner whose area of expertise fits your needs and who has an investment philosophy with which you are comfortable. Choose one who is a certified financial planner (CFP) and licensed to deal in a variety of products—from securities to tax shelters rather than just one product. This will allow you greater diversification. Also compare fees before making your decision.

Bankers, attorneys and insurance agents also provide financial and investment information. Select one who specializes in a specific area such as tax or estate planning.

Financial Institutions, Products and Services

In the U.S., commercial banks have traditionally offered checking and savings accounts and made commercial loans. Savings and loan associations, on the other hand, were the primary providers of home mortgages and personal loans. But today, as a result of the government's deregulation of the financial industry, institutions can offer similar services and a variety of products at competitive interest rates. This section provides a brief description of various financial institutions and their products and services.

Financial Institutions

Smart consumers will take advantage of the keen competition between financial institutions for saver and investor dollars and comparison shop for banking products and services. Many institutions provide these services; some of the U.S. institutions which do so are described below:

- **Commercial banks** accept deposits from individuals, businesses and the government and are the main source of business loans. They also provide a variety of other consumer services such as installment loans, interest-bearing checking accounts, trust management, safe deposit boxes, etc. For your protection, the Federal Deposit Insurance Corporation (FDIC) insures depositors' accounts up to $100,000.
- **Savings and loan associations** (S&Ls) accept deposits from individuals, businesses and the government and engage primarily in residential lending. They also offer interest-bearing checking accounts, passbook savings accounts, money-market deposit accounts, as well as traveler's checks, credit cards, notary services, etc. Depositors' accounts are insured up to $100,000 by the Federal Savings and Loan Insurance Corporation (FSLIC).
- **Credit unions** are nonprofit financial cooperatives serving members of a particular group—people working for the same employer, people who belong to the same fraternal organization, church or labor union, or those who live in the same community. Savings are called "shares" and are federally insured up to $100,000 by the National Credit Union Administration (NCUA). Credit unions can also offer share-draft and interest-bearing checking accounts. Most of the lending activity involves automobile and personal loans.
- **Mutual savings banks** are geographically concentrated in the northeastern United States. They specialize in savings accounts and home mortgages. Deposits are insured by state or federal agencies.

In Canada, trust companies, banks and credit unions all engage in financial services. Following is a description of each:

- **Banks** can be found throughout Canada. In addition to the traditional savings and checking accounts, banks offer foreign currency accounts, engage in the buying and selling of securities and gold and silver investments. The Canada Deposit Insurance Corporation (CDIC) insures the depositor for up to $60,000 per deposit category qualifying for coverage per institution.
- **Trust companies** handle the customary banking services and also act as trustees for individuals and corporations. They administer estates and manage investment portfolios. For a fee, trust companies will assist you with a will and serve as the executor of an estate. Depositors are insured for $60,000 by CDIC, on the same basis as bank depositors.
- **Credit unions** are nonprofit financial cooperatives which are located nationwide. They serve the financial needs of their members, who may be employees of a particular company, members of a specific church, trade union or community. The type of deposit insurance available to credit union depositors varies from province to province.

Financial Products

In the early 80s financial legislation was passed which revolutionized the banking industry. The U.S. *Depository Institutions Deregulation and Monetary Control Act of 1980* (DIDMCA) provided for the gradual phaseout of interest-rate ceilings on savings vehicles, authorized S&Ls to issue credit cards and allowed all banks and S&Ls to offer interest-bearing checking accounts.

Financial institutions in the U.S. are now authorized to offer money-market deposit accounts which have no interest-rate ceilings. Banks are also permitted to engage in brokerage activities—on a limited basis. In addition, changes in the *Employee Retirement Income Security Act* (ERISA) permitted workers to establish their own individual retirement accounts (IRAs).

As a result, many new financial products have been introduced. Listed below are the savings and investment opportunities available at most U.S. banking institutions. To compare them, see the chart on page 12.

- **Negotiable order of withdrawal (NOW)** accounts are interest-bearing checking accounts which pay variable interest rates. The credit union equivalent is called a share draft account.

FINANCIAL PRODUCTS THROUGH U.S. BANKING INSTITUTIONS

Product	Minimum Deposit	Advantages	Disadvantages
NOW Accounts	Varies	Checking privileges Variable interest rate	Minimum balance may be required Service fee may be charged if balance falls below minimum
SuperNOW Accounts	Varies	Checking privileges Variable interest rate	Minimum deposit may be required Service fee may be charged if balance falls below minimum
Passbook Savings Accounts	Varies	Few restrictions Unlimited withdrawals Variable interest rate	
Money-Market Deposit Accounts	Varies	Money market rate of interest	Restricted number of transfers and checks each month—usually six Minimum deposit may be required Service fee may be charged if balance falls below minimum
Certificates of Deposit (7-31 days maturity)	$2,500	Guaranteed fixed rate of return	Loss of interest for early withdrawal
Certificates of Deposit (32 days or more maturity)	Varies	Guaranteed fixed rate of return	Loss of interest for early withdrawal
Treasury Bills	$10,000	Interest exempt from state and local taxes Easily sold	High minimum deposit
EE Savings Bonds	$25	Interest exempt from state and local taxes Federal tax deferred until maturity	Lengthy 10-year maturity Penalty for early withdrawal before five years
HH Savings Bonds	$500	Interest paid annually Provides current income	10-year maturity Federal taxes on interest not deferrable

Note: Figures applicable at date of printing

- **SuperNOW accounts** are interest-bearing checking accounts which have no interest-rate ceilings. A minimum deposit may be required. If the account balance falls below the minimum, a service fee may be charged and the interest rate reduced. An unlimited number of transactions are allowed each month.
- **Passbook savings accounts** may be opened with small deposits and future deposits may be made in any amount desired. The rates of interest paid on these accounts vary. The equivalent of a passbook savings account in a credit union is called a share account.
- **Money-market deposit accounts (MMDAs)** serve as savings accounts but earn interest at a rate competitive with money market funds. A minimum deposit may be required. If the account balance falls below the minimum, a service fee may be charged and the interest rate reduced. There are restrictions as to the number of third-party transfers and checks permitted each month. Transactions to another account and withdrawals are unlimited.
- **Sweep accounts** operate like checking accounts. However, when the balance of the account reaches a certain level, the bank or S&L automatically "sweeps" the surplus into another investment paying a higher rate of interest. When the balance drops below the minimum requirement, money is "swept" back into the checking account.
- **Certificates of deposit (CDs)** are time deposits which mature at a specific time, i.e., 31 days, 90 days, 6 months, etc. CDs pay a fixed rate of interest for the term. Those maturing in 32 days or more have no interest rate ceilings or minimum deposit requirements. However, institutions can establish their own restrictions. There is also a penalty for early withdrawal.
- **U.S. Treasury bills (T-bills)** may be purchased for a minimum of $10,000, with maturities of 13, 26 or 52 weeks. They are available through banks or other financial institutions for a small fee, or through Federal Reserve offices. Although T-bills cannot be cashed early, they are usually fairly easy to sell. The interest is exempt from state and local taxes.
- **E E savings bonds** are available at most banks in multiples of $25 or, in some cases, through payroll deduction plans. For bonds held five years or longer, the interest rate is equal to 85 percent of the average market rate on a five-year Treasury note, with a guaranteed minimum of at least 6.06 percent a year.
- **H H savings bonds** pay interest annually, providing current income, and are available in denominations ranging from $500 to $10,000.

In Canada there are also several savings and investment options:

- **Regular savings accounts** generally pay a higher interest rate than daily interest savings accounts but interest is only paid twice a year.
- **Daily interest savings accounts** are savings accounts on which the interest is computed daily and credited monthly, allowing for the compounding of interest. Most financial institutions allow unlimited withdrawals, although there may be a service charge.
- **Chequing savings accounts,** like regular savings accounts, pay a low rate of interest but allow checking privileges.
- **Daily interest chequing accounts** combine the features of a checking and savings account. As long as the minimum balance is maintained, they pay an interest rate equal to daily interest accounts and withdrawals are unlimited and checks are free of charge.
- **All-purpose accounts** pay an interest rate equal to term deposits and offer check-writing privileges as long as a fairly high minimum balance is maintained. For lower minimum deposit requirements, the interest rate paid is equal to daily interest savings accounts. For the lowest minimum balance the rate is equivalent to that of a chequing savings account.
- **Term deposits and guaranteed investment certificates** are issued by banks and trust and mortgage companies respectively. They are long-term investment instruments which pay a guaranteed interest rate for a specified length of time, usually one to five years. In general, the investment required is between $1,000 and $5,000 and there is a penalty for cashing it in early, if this is allowed. A higher rate of interest is paid on these long-term deposits than on a regular savings account.
- **Certificates of deposit** are similar in many ways to term deposits and guaranteed investment certificates but are for a shorter term than one year. The minimum deposit is usually $5,000.

- **Canada savings bonds** are available through trust companies, banks and payroll deduction plans in denominations ranging from $100 to $5,000. Both the interest rate and length of maturity vary. Interest can be paid annually or left to compound until maturity.
- **Treasury bills** are short-term government securities available in various denominations from $1,000 to $1,000,000. Treasury bills may be purchased through chartered banks and investment houses.

Institutions in both the U.S. and Canada will vary as to minimum deposits required, the rate of interest paid, and other customer restrictions. It is up to you to decide which products and services best suit your financial needs and purposes.

Financial Services

An array of new services is being offered to consumers as a result of computer technology and recent legislation. In addition to the typical services provided by financial institutions—credit cards, safe deposit boxes, traveler's checks, money orders, etc.—electronic banking makes it possible to conduct financial affairs during nonbanking hours in shopping malls, on the sidewalk and in supermarkets. With the use of automatic teller machines (ATMs) and electronic funds transfers (EFTs), certain transactions can be transmitted by computer without a bank teller's assistance.

In more recent years the number of nonbank companies involved in financial services has opened up new competition within the financial industry in the U.S. These one-stop financial firms offer consolidation of all banking activities under one roof, relieving you of the necessity of handling these matters separately and in different locations. Some of the services provided by these financial supermarkets include:

- brokerage services
- checking accounts
- money market funds
- lines of credit
- real estate services
- insurance
- credit cards
- tax preparation
- IRAs
- financial counseling

When choosing a place to conduct your financial affairs, check the services offered, the fees and minimum-deposit requirements. Look for personal attention. How often do you receive a bank statement? How does the institution determine the balance on which interest is paid? How often is the interest compounded on your account? The greater the frequency, the higher the return.

Find out the rate of interest paid on accounts. It can make a substantial difference. The higher the rate, the faster your money will grow, due to the magic of compound interest.

For example, if your money earns 5½ percent interest, it will take 13 years before $100 becomes $200. Investing it at 8 percent interest, you would need only 9 years to double your investment.

To find out how fast your money will accumulate at different interest rates, follow the rule of 72. When you divide the number 72 by the interest rate, the answer tells you how long it will take for your savings to double. For example, at 12 percent your money will double in 6 years.

Investments for Income and Growth

In this section you will find some guidelines for developing a personal investment portfolio and a brief description of various investments that can produce income and growth, such as stocks, bonds, mutual funds, and commodities.

Know Your Objectives

Whether you are looking for capital growth, income or short-term profits, the key to obtaining a good return on your investment dollars is to define your investment objectives and plan how to reach them.

Described below are the various objectives you will want to consider. Many investors divide their assets among two or more objectives. Determine which of these best suits your individual or family needs, then decide what portion of your investment dollars should be directed toward each.

- **Long-term capital growth.** For investors seeking capital appreciation over a period of time to provide funds at some future date for retirement, educational expenses, a higher standard of living or the purchase of a home.
- **Income.** For those looking for immediate cash flow (or yield), with emphasis on safety of principal and liquidity should the funds be needed on short notice.
- **Short-term profits.** For speculators willing to take above-average risks to obtain a high return in the shortest time possible.
- **Tax savings.** For investors looking for tax-free income, a shelter to ease their current tax burden or tax-deferred capital appreciation.

Sources of Information

Almost all investments require some kind of risk, but you can control the amount of risk you undertake by diversifying your assets and investments with care. You can learn more about investment opportunities from any of the following sources:

- **Newspapers, business magazines and books** provide a wealth of information on saving and investing and are often written with a beginning investor in mind. Major newspapers also quote stock market prices as well as those for bonds, mutual funds and precious metals.
- **TV and radio programs** often interview financial experts who provide investment advice on local and national newscasts.
- **Courses on investments** are available in adult education and college classes.
- **Prospectuses,** which are furnished on request from corporations, describe investments offered for sale to the public.
- **Annual reports** are financial statements issued by corporations which outline their assets, liabilities and earnings.
- **Brokers, bankers, insurance agents, attorneys and lawyers** offer financial planning and investment information generally for a fee. Make sure the advisor you select specializes in a specific area such as tax or estate planning. Brokers generally have access to research data on which to base their investment advice.

- **Investment clubs** are comprised of people who meet regularly to pick stocks and pool resources. These clubs can help you learn more about the stock market, especially if they include experienced investors or brokers who can give market guidance.
- **Financial planners** review current assets and financial goals, provide written investment plans and help clients implement them.
- **Financial advisory services and newsletters** track investment performance and stock market trends. Subscription rates vary. However, for a few dollars many of these firms will send a sample issue or two.

Stocks

When you buy stock, either *preferred* or *common*, you are actually purchasing a share of ownership in the company. Dividends for preferred stocks are paid at a fixed rate and distributed before those for common stock. Some preferred stocks have a conversion feature which permits them to be exchanged for common stock at a given ratio and generally within a specified time limit.

Common stockholders have a claim on the profits of the corporation only after those of creditors and preferred stockholders are met. Common stock pays dividends as they are declared by the board of directors of the corporation. The amount of the dividend may fluctuate, depending on the financial position of the corporation, economic conditions and management plans. When earnings of a corporation are good, its common stock may offer an opportunity for increased value and/or income. In times of economic uncertainty or when corporate earnings are poor, common stock may decline in both income and value.

One way to invest in the stock market is to purchase stocks through brokers who charge a fee or commission for their services. They buy or sell securities in two ways—through stock exchanges such as the New York (NYSE), American (AMEX), Midwest (MSE) exchanges or the over-the-counter market (OTC), which means the stocks are not listed on any exchange. In Canada, brokers trade through the Montreal, Toronto or Vancouver exchanges or OTC.

Most stocks are traded on the exchange in 100-share units called *round lots*. However, you can buy *odd lots*, which are smaller. In this case, your stock is bought from an "odd lot dealer" who completes the transaction with the use of a computer. Odd lots are less profitable for brokers because it takes the same amount of time and paperwork to buy 15 shares as 100, but the dollar volume is smaller. Thus you usually pay a higher commission.

Types of Stocks

The types of stocks which best suit your needs depend upon your investment objectives. If it's current income you want, *income stocks* offer higher and more regular dividends, but do not usually change dramatically in price. For higher future income turn to *growth stocks*, which are more likely to provide you with long-term capital appreciation. *Blue-chip stocks*, those issued by companies well-known for high-quality products and services and their ability to make money and pay dividends, are especially appealing to investors seeking security. *Penny stocks* are low-priced stocks, often highly speculative, which sell for less than $1 per share.

Investing in Stocks

One of the easiest and safest methods of investing is dollar cost averaging, in which you invest a fixed amount of money in the same investment vehicle (mutual funds, stocks, etc.) at regular intervals—weekly, monthly, or quarterly. Over time, you theoretically buy more shares when the price is low and fewer shares when the price is high. See the chart on page 18.

The discipline of regular payments also helps you to avoid two of the most common investment errors—buying high and selling low. Some brokerage firms and mutual funds offer monthly investment plans whereby a set amount is automatically deducted from your bank account each month and used to purchase the number of shares or fractional shares that your payment will allow.

To obtain adequate diversification, investors are advised to hold from five to ten stocks. You will probably find it hard to keep track of any more.

Following the Market

To keep up to date on stockmarket trends, many investors watch the "Dow." The *Dow Jones Industrial Average (DJIA)* is derived from 30 industrial stocks listed on the NYSE and measures the market's overall performance each business day. Those who are "bullish" on the market think it will be on an upward swing, while the "bears" feel it's due to decline.

To learn how well your investments are doing, check the stock transactions that appear in the business section of most daily newspapers. The day's final price for each stock is quoted along with the highest and lowest price paid for the stock that day. Prices are quoted in dollars and fractions of dollars, such as 20¼ ($20.25). The annual dividend, number of shares traded and the highest and lowest price paid for the stock in the last year are also given. (See the example on page 17.)

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NYSE COMPOSITE PRICES ①

② 52-Week High	③ Low	④ Stock	⑤ Div.	⑥ Yld %	⑦ PE Ratio	⑧ Sales (hds.)	⑨ High	⑩ Low	⑪ Close	⑫ Net chng.
20¼	10⅛	AAA	.44	2.3	24	81	19⅜	19¼	19⅜	+ ⅛
52⅜	30½	BBB	1.40	3	15	3843	47⅛	47	47⅛	+ ⅛
18⅞	13⅛	CCC	.50	3.7	8	221	14	13⅝	13⅝	.....
41¼	23⅝	DDD			7	13958	33¾	33⅛	33⅛	– ⅛
55¼	40¼	EEE	2.05	4.7	9	105	43⅞	43⅜	43⅞	– ¼
33¼	14⅝	FFF	.32	1.5	16	327	21¾	21¼	21¼	– ¼
53⅝	39⅝	GGG	1.20	2.9	15	1111	42⅜	41⅜	41¾	+ ¼

1. A composite stock table for the New York Stock Exchange, which tabulates prices paid for a particular stock traded that day.
2. The highest price paid per share in the past 52 weeks.
3. The lowest price paid per share in the past 52 weeks.
4. The abbreviated name of the company.
5. The annual dividend paid per share by the company.
6. The rate of return expressed as a percentage.
7. The price-earnings ratio—the stock price per share divided by company earnings per share.
8. The number of shares (in hundreds) traded that day.
9. The highest price paid for stock that day.
10. The lowest price paid for stock that day.
11. The last price paid for stock that day.
12. The difference in the closing price from the previous day.

Bonds

When you invest in bonds, you are actually loaning money to the federal, state or provincial government, a city or corporation. In return the issuer promises to pay a fixed rate of interest over a specified period of time and the principal (face value) at a definite future date. For example, a corporation might issue a $1,000 bond which pays 9.5 percent annual interest and matures in 30 years. The current market value, however, depends on interest rates, economic conditions and the financial position of the issuer. If you sell the bond before it matures, the yield may be higher or lower than the stated rate.

Types of Bonds

Bonds are issued through the government, federal agencies, municipalities and corporations. A brief summary of each follows:

- **Government**—U.S. government bonds, which are considered the safest of all, include Treasury bills, notes and bonds. Treasury bills are short-term investments which mature in one year or less and are sold in denominations of $10,000. Treasury notes mature in one to seven years and are available in minimum amounts of $1,000 to more than $100,000. Treasury bonds are issued in denominations of $1,000 to $1,000,000, with a maturity of more than seven years. Government bonds may be purchased through brokers, local banks or directly from Federal Reserve Banks. Interest is exempt from state and local taxes. (U.S. savings bonds are discussed on page 13.)

In Canada, Government of Canada bonds are available in denominations of $500, $1,000 and $10,000 or more. They are issued through the Bank of Canada and can usually be purchased with a maturity of one to twenty years. (Canada savings bonds are discussed on page 14.)

- **U.S. Federal agencies**—agencies such as the Federal Home Loan Bank Board and the Federal National Mortgage Association issue federal bonds which are similar to U.S. Treasury bills. They are normally available in minimum amounts of $1,000 to $5,000 and usually pay slightly higher interest than Treasury bills. Some are also exempt from state and local income taxes.

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- **Municipal**—these make up the largest segment of the bond market. They are issued by the various local governments—state or provincial, city or county. In the United States, interest from municipal bonds is exempt from federal income taxes. For this reason, they usually have a lower yield. Municipal bonds are generally issued in a series, some maturing in a year or two, others with maturities of up to 30 years. Bonds may be purchased through banks, brokers and municipal bond funds.
- **Corporate bonds**—these are issued by a variety of corporations to raise funds for expansion and growth. They are traded through the New York Stock Exchange or over the counter. Corporate bonds are usually sold in minimum amounts of $1,000 and generally pay a slightly higher return than other bonds. However, they are not tax exempt and their quality depends on the financial strength of the corporation.

Rating Bonds

Two independent investment companies rate the safety and quality of bonds—Moody's Investor Services and Standard and Poor's Corporation. Ratings of AAA or AA indicate the highest grades and the ultimate degree of protection of principal and interest. Bonds rated as A are also favorable investments but may be more strongly influenced by changes in the economy. Bonds with BBB ratings or lower are more speculative in nature.

Mutual Funds

Are you a novice in the investment world? Do you have limited funds to invest? Do you lack the time or the interest to study the stock market and manage numerous investments on your own? If you answer yes to all these questions, then mutual funds may be a good investment choice for you.

HOW DOLLAR-COST AVERAGING WORKS

	1st Payment	2nd Payment	3rd Payment	4th Payment
Amount Invested	$100.00	$100.00	$100.00	$100.00
Market Price Per Share	20.00	25.00	12.50	20.00
Number of Shares Purchased	5	4	8	5
Total Number of Shares Owned	5	9	17	22
Total Amount Invested	$100.00	$200.00	$300.00	$400.00
Average Cost per Total Shares	20.00	22.22	17.65	18.18

Mutual funds are investment companies which pool money from thousands of shareholders and invest it with specific objectives in mind, like capital appreciation or income. Best known perhaps are the money-market mutual funds.

Whether you have a lot or a little to invest, mutual funds offer these advantages:

- **Diversification** spreads your assets among several investments in different companies and industries to reduce risk.
- **Professional management** transfers the burden of making prudent investment decisions from you to a team of fund managers.
- **Low minimum investment requirements** allow small investors to purchase securities they could not otherwise afford.
- **Reinvestment of dividends** maximizes your capital gains.
- **Redemption of shares can be easily handled** by writing a letter or, in some cases, a simple phone call.

Not all mutual funds outperform the stock market. In fact, those which rise quickly in price when the market is up, tend to drop dramatically in a down market. Remember also, the past performance of a fund is no guarantee of how it will do in the future.

Types of Mutual Funds

There are several different kinds of funds from which to choose. *Growth funds* usually hold stocks of large established companies and are more stable and consistent performers. *Income funds* seek common stock, preferred stock, and bonds with higher current yields. *Growth-income funds* seek both current income and long-term growth. *Balanced funds* distribute investments among bonds and common and preferred stocks. Their investment approach is more conservative than other funds, with safety of principal and stability of income being the main objectives. *Money market funds* invest in U.S. Treasury bills, government bonds, certificates of deposit and commercial paper. They offer a high degree of safety because holdings are, for the most part, backed by the U.S. government. They are also very liquid. Minimum investments usually start at $1,000. Most money market funds offer check-writing privileges in minimum denominations of $500 or more. *Specialized funds* limit investments to a specific industry or location such as utilities, gold or medical technology.

Some mutual funds are made up of a family of funds. For example, a family might consist of a money market fund, a stock fund and a tax-exempt bond fund. In some cases, you can switch from one to another with a phone call which allows you to readily capitalize on changing market conditions. (Service fees are sometimes charged for switching.)

Choosing a Fund

There are numerous books, magazine articles and financial advisory services which describe the performance of various funds. Once you have narrowed your selection down to a few, you will want to read the mutual fund's prospectus before making a final decision. (Many funds have an 800 number you can call to request one.) A prospectus states investment objectives, reviews past performance, outlines investment strategies and lists the securities currently held in the company's portfolio. Other services—automatic reinvestment of dividends, check-writing privileges, initial investment requirements, service fees and redemption requirements—are also explained.

Find out if there is a sales charge. *Load funds* charge a sales commission; *no-load funds* do not. Although no-load funds may appear to some investors to be the best deal, there is no concrete evidence that one outperforms the other.

To track the performance of a fund, check the business section of most major newspapers. The first figure listed under mutual funds is the net asset value (NAV). This is the selling price of one share. The next figure given is the offer price or the cost of buying one share. It is made up of the NAV plus the sales commission or load. No-load funds can be easily identified because the NAV and the offer price are the same. The letters "N.L." also indicate a no-load fund. The final figure shows any change in the NAV from the previous day. (See sample listings above.)

MUTUAL FUNDS

① Fund	② NAV	③/④ Offer Price	⑤ NAV Chg.
AAA	27.18	N.L. ③	+.10
BBB	17.91	N.L.	+.15
CCC	15.64	N.L.	+.07
DDD	23.43	24.43 ④	+.21
EEE	12.86	14.05	-.05

1. Abbreviated name of the fund
2. Net asset value per share (the total assets of the fund, minus its liabilities, divided by the number of shares outstanding)
3. Indicates no-load fund
4. The NAV per share plus the load or sales commission
5. Change in net asset value from the previous day

Commodities

What do pork bellies, soybeans and copper have in common? They are all traded on the commodities market, along with other materials used for food, clothing, energy and shelter. Commodity exchanges provide a marketplace for buyers and sellers actively involved in the trading of futures contracts. These are agreements to buy or sell a commodity at an agreed-upon price on a specific future date. For example, a speculator might purchase a contract for 5,000 bushels of soybeans for delivery in either January, May or November at $2.75 per bushel.

Most speculators never take delivery, however. They buy on margin, putting down only 5 to 10 percent of the contract's value. If the price rises 20 cents, for example, they sell the contract and take the $1,000 profit for a minimum investment.

Because commodities are highly leveraged, they can be very profitable. However, speculators can also sustain heavy losses. Commodity prices are largely influenced by weather and crop conditions, interest rates and other political and economic factors, which means they are very speculative and not a wise choice for inexperienced investors.

Gold, Silver and Other Assets

For the knowledgeable investor, gold, silver and collectibles—antiques, art, coins and stamps—can return a handsome profit. Investments such as these are not recommended for average investors, however, because of their speculative nature.

Gold

Many are attracted to the glitter of gold as a hedge against inflation. As an investment, it generally performs well when stocks, bonds and other investments are doing poorly, but there are no guarantees. Remember, gold pays no interest or dividends. Profits, if any, are based solely on appreciation. There are several ways to buy gold, each with advantages and disadvantages. Here are the most common:

- **Bullion**—gold bars are sold by currency dealers, some security brokers and banks. The metal should be certified as 99 percent pure and bear the stamp of a major refiner. Investors must pay a sales tax and have the bullion tested for its metallic content. In addition, bullion must be insured and stored, which can be quite costly.

- **Coins**—for small investors this is the most popular way to buy gold. Coins such as the South African Krugerrand and Canadian Maple Leaf can be bought in small quantities through dealers, brokers and some banks. When you buy coins, they are subject to sales tax and should be stored in a safe deposit box. Resale is fairly easy.
- **Stocks**—you can invest in gold by purchasing stocks in U.S., Canadian or South African mining companies. The advantage to buying gold stocks is that you are paid a dividend on your investment. However, because prices are affected by government policies and other political affairs, they tend to be very volatile. Mutual funds specializing in precious metals help to spread the risk.
- **Gold passbook accounts**—some major banks allow you to purchase smaller quantities of gold through a passbook account. Generally there is a five-ounce minimum. Accounts can then be added to in one-ounce increments. No interest is paid on these accounts, but because the bank handles all the paperwork, you have the benefits of ownership without the problems of storage, insurance, etc.
- **Futures**—gold futures are traded on the commodities market. Due to fluctuating prices, however, they are an extremely risky investment.

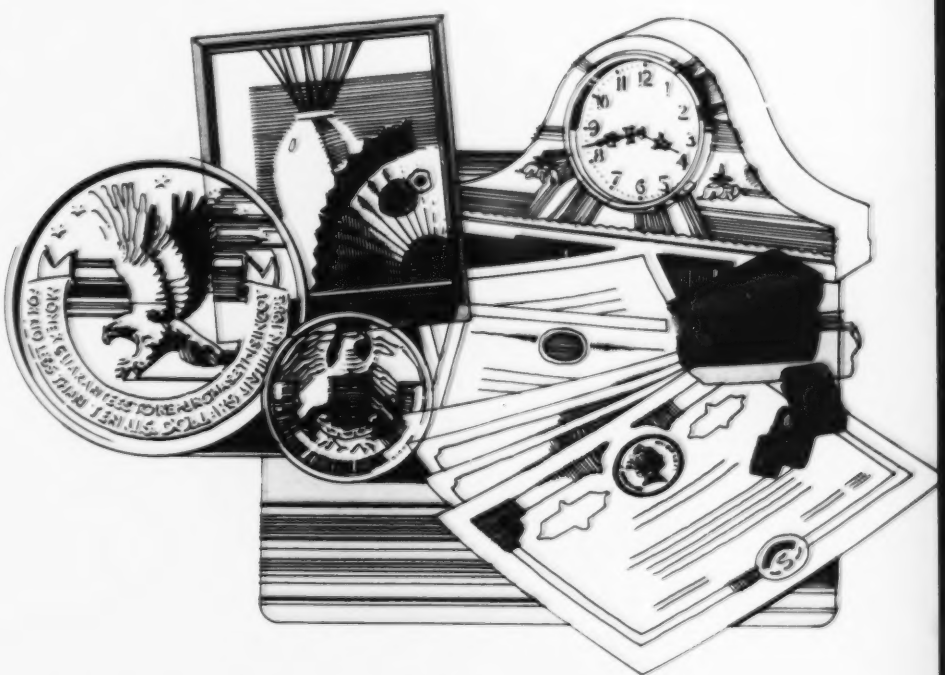
Silver

The buying and selling of silver is very similar to that of gold. Speculators can purchase bullion from a dealer or buy bags of pre-1965 U.S. silver coins. (Prior to 1965, dimes, quarters and half dollars were minted with 90 percent silver, making their current value greater than their spending power.)

Buying bags or half bags of silver is the most popular way to invest in this precious metal. Bags generally contain $1,000 in face value. The price, however, depends on the current market price of silver. Bags, which weigh about 55 pounds, can be cumbersome to store and costly to insure. In addition, no income is received until you sell. You can also buy silver through passbook accounts at some major banks and, for those willing to take additional risks, silver futures may be purchased on the commodities market.

Other Assets

Stamps, antiques, art work and precious gems are highly speculative investments. Nonetheless, knowledgeable collectors can make a profit if they buy top-quality merchandise and invest for the long term. Not all collectibles have kept pace with inflation. If you are a novice, it is recommended you buy things which you like and can use in your home—antique furniture, paintings, oriental rugs—and purchase only from reputable dealers. Invest only a limited portion of your portfolio in these specialized items and watch out for fraudulent schemes. *Never* invest over the phone. Remember, collectible and other tangible assets pay no interest and can be expensive to store or insure. Buyers may also be difficult to find, which is why collectible items are best acquired first for their visual delights and secondly for their economic value.



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Real Estate

This section will focus on rental property, Real Estate Investment Trusts (REITs), Real Estate Mortgage Investment Conduits (REMICs) and Real Estate Limited Partnerships. Home-ownership, probably the most common of real estate investments, will not be discussed here because it is covered in some depth in the MMI booklet, YOUR HOUSING DOLLAR (see listing page 36).

Rental Property

There are two kinds of income-producing property: improved and unimproved. Improved property is land that contains a building; it is usually expected to provide an immediate return in the form of rent. Unimproved property is vacant; it involves immediate expenses but generates no immediate income as a rule.

Investing in rental property, like investing in anything else, has pluses and minuses. Some of the advantages are:

- Carefully selected real estate probably will continue to be a good hedge against inflation.
- You can make a large investment with a relatively small amount of actual cash, because it is possible to borrow the greater part of the purchase price. This is called *leverage*. For example, if you buy property priced at $75,000 for $15,000 down and five years later sell it for $90,000, you will net $15,000 (minus interest paid and selling expenses) on an investment of $15,000, or approximately 100 percent. If you had paid $75,000 in cash, on the other hand, you would have made 20 percent on your investment.
- Rental property has certain tax shelter advantages. In the U.S., real estate taxes, mortgage interest, maintenance and other operating costs, depreciation and reimbursements or casualty losses can be deducted from your taxable income, subject to various limitations.

Some of the disadvantages are:

- The management of property can be bothersome, time consuming, and plain hard work. Failure to properly estimate the "vacancy factor" can make quite a dent in your profits.
- Selling the property depends on the local economy as well as the availability of mortgage money, which means it can take a long time. A real estate investment therefore is not considered a liquid investment.
- The property must appreciate more than six percent in order for you to come out ahead when you sell. This is the usual commission charged by brokers.

Before purchasing any real estate, acquire some knowledge of the property values in the area which interests you. Consider not only the cash needed upfront but the probable future financial investment needed—for maintenance and repairs, desired improvements, taxes, etc.

Be sure your financial plan permits the expenditures—present and future. Consult your accountant or financial planner to make sure you understand the tax rules regarding ownership of property and then use an attorney when making the purchase arrangements.

REITs

REIT stands for *Real Estate Investment Trust*. These are similar to mutual funds except that, instead of stocks and bonds, REITs use shareholders' capital to buy property or make mortgages. Most REITs have shares that are traded through brokers like stocks of other public companies and are subject to the same kind of price fluctuation. If you want to get your money out, you simply sell your shares.

There are three types: *equity*, *mortgage*, and *hybrid REITs*. Equity REITs are long-term investments for both current income and asset appreciation. These firms own apartment complexes, shopping centers, nursing homes and motels, etc. Mortgage REIT's lend money: earnings depend on the difference between the cost of the funds and the interest they earn. In addition, the trusts are structured so they can share in the appreciation of the property. Hybrid REITs engage in both equity ownership and lending.

Generally, REITs pay no taxes on income or gains, providing they distribute at least 95 percent of earnings to shareholders and meet certain other conditions.

REIT shareholders are taxed on their distributions in the same way stock dividends from corporations are taxed. In certain situations, dividends from a REIT may be treated as a partial refund of the shareholder's investment or "return of capital." While such dividends are initially tax exempt, you must deduct the amount of the payment from the cost basis of the shares when the stock is sold, and thus pay a larger capital gains tax. Before investing in a REIT, study the prospectus and annual report and check the payout record for the last three years. Similar investment vehicles are offered in Canada through mutual funds investing in real estate transactions.

REMICs

REMIC stands for *Real Estate Mortgage Investment Conduit*, which is similar to a REIT with two exceptions. A REMIC may be established in any type of business structure such as a partnership and offers investors a choice of two types of ownership—regular interest and residual interest. Each type of ownership is taxed differently.

Due to the complexity of REITs and REMICs, consult your accountant or financial planner to make sure you understand the tax rules surrounding these forms of investments.

Real Estate Limited Partnerships

Limited partnerships or *syndicates* pool investors' money to buy property. They therefore are similar in concept to mutual funds, enabling small investors to own shares of costly real estate. For example, five thousand dollars can often buy a share of an apartment complex or a shopping center.

Such shareholders are known as limited partners—their income and any liabilities they may incur depend upon the amount they have invested. Limited partners only contribute capital; the general partners handle the management of the property. There are only two types of limited partnerships—public and private. A public partnership may have more than 35 limited partners. Its offerings are registered with the Securities and Exchange Commission (SEC) and sold through the sponsoring firm. Private partnerships are not always registered with the SEC. It depends on the offering.

Limited partnerships are regulated by federal and state governments and the National Association of Security Dealers. They provide cash flow from rents, some tax shelter and capital gains if the property appreciates. Expenses or losses incurred by the partnership can be used to offset income earned from similar investments.

The disadvantage is that partnerships can be difficult to evaluate. You have essentially no control as to when properties are sold, and there is no guaranteed return. Before investing in a syndicate or limited partnership, check out the reputation, objectives and past performance of the sponsor.

Investing in Yourself

Tax Shelters

A tax shelter postpones, reduces or eliminates a portion of your tax burden, allowing your money to work elsewhere for you. The higher your income, the more money saved. Basically, there are two kinds of shelters—tax deferred and tax free. Tax deferred shelters allow you to put off paying income taxes until some future date. Most often taxes are deferred until retirement when your tax bracket may be lower. Most pension plans, your own or your employer's, are tax-deferred arrangements. So are U.S. savings bonds and annuities.

Tax-free investments eliminate taxes altogether. In the U.S., municipal bonds fit into this category. Tax-exempt mutual funds are also available. Because both property taxes and the interest on your mortgage are tax deductible in the U.S., homeownership is probably the most common tax shelter. Tax shelters also include a broad spectrum of other investments, from retirement savings plans to oil exploration.

Like any investments, the safety of any tax shelter depends on the market. There are no guarantees that it will appreciate in value. Furthermore, the IRS or Revenue Canada may challenge your interpretation of the tax law and disallow your tax deduction. Some less prudent investors have found themselves owning nonexistent property or oil wells. So before you invest, consult an investment advisor or financial planner.

There are many ways to invest in oneself, but only two of these properly belong in a booklet on savings and investments: through higher education and starting your own business.

Higher Education

Higher or postsecondary education—i.e., beyond high school—includes vocational and technical training as well as college and university courses. Its cost can be considered as much of a capital investment as a house, car, stocks, etc., because of its likely financial impact on our lives. A higher education cannot only bring great personal pleasure; it also can lead to better employment opportunities, higher earnings and increased job satisfaction.

Many students and their families cannot provide all the funds required; they seek one or more of the types of financial aid described below. Financial aid officers can help young people in their efforts to acquire the aid package that will suit them best, but it's up to the students themselves to take action. The only sure way to find out if one is eligible for aid is to apply for it. Do so early, at the beginning of your final year in high school.

- **Scholarships** are financial gifts granted outright by various organizations. They do not have to be repaid.
- **Grants** are also outright gifts that do not have to be repaid, but they are often given on the basis of financial need alone.
- **Student and parental loans** are made available for educational expenses for less than the going interest rates but they must be repaid in full. Some are guaranteed by the federal government, which also subsidizes the lower interest rate. There are some income restrictions.
- **Subsistence allowances,** usually disbursed monthly, help pay living expenses and incidental fees. Stipends for military enrollees and outstanding athletes are the most common types.
- **Paid employment** is arranged by students themselves or with the help of their schools.

Sources of Educational Funds

Educational costs are met by students and their families whenever possible, but often they must turn to schools, the federal government, state or provincial governments, the military, the Veteran's Administration and various private sources for assistance.

- **The student** who must or wants to shoulder much of the cost of higher education should investigate *cooperative education programs.* Such programs permit students to alternate periods of full-time study with periods of full-time work in fields related to their majors. It takes somewhat longer, however, to obtain a degree. For a free list of the colleges offering cooperative education programs, see page 35.
- **Postsecondary schools** provide scholarships, fellowships, grants and loans that come from the schools themselves as well as from the federal, state and provincial governments and private sources. They also assist students in finding part-time work.

- **The U.S. federal government** provides many kinds of financial assistance, through *Pell Grants, Supplemental Education Opportunity Grants (SEOGs),* the *National Direct Student Loan Program (NDSL),* the *College Work-Study Program,* the *Guaranteed Student Loan Program (GSL), PLUS loans,* and loans for training in the various medical specialties. The various types of federal assistance differ markedly from each other: in eligibility requirements, in the amounts of funds made available, in the interest rates charged, and payback arrangements. The Department of Education provides detailed information on these programs. For ordering information see page 35.

- **State governments** provide a wide variety of scholarships, grants, loans, guaranteed loans, tuition assistance and work-study programs, but these differ greatly from one state to the next. If you are interested in obtaining state assistance, be sure to apply for a Pell Grant first. This is a prerequisite in most states.

- **Canadian financial aid** is provided by the federal government, the provinces and universities. Every province has a program of student assistance based largely on the *Canada Student Loans Program* (CSLP), a federal government plan administered by the provinces. Every university supplements this by offering scholarships, grants and loans from its own funds and from those for which it is trustee. Official information about the CSLP and the various other forms of assistance to students can be obtained from student awards offices in the universities.

- **The U.S. military** offers a number of different financial aid arrangements. *Scholarships to military academies* include full tuition, room and board, and a monthly allowance, but they entail a four-year service obligation. There are two types of *ROTC scholarships*. Students participating in the regular four-year program receive a monthly subsidy the last two years. The more competitive four-year scholarship pays all tuition costs, fees and books, plus the monthly subsistence allowance. There are also *military medical training programs* available. Those who enlist directly in the services can get tuition assistance for approved part-time study, for vocational training or courses leading to a college degree. In addition, if you are the son or daughter of a veteran, you may be eligible for special assistance.
- **Employers,** particularly the larger companies, often offer scholarships to employees' children and some pay all or part of the graduate-studies tuition for employees. Some of them operate their own training centers, while others might sponsor independent study programs or arrange for colleges to conduct courses at their work facilities.
- **Other sources** include many private corporations that offer scholarships and awards to graduates of local high schools, as well as civic, fraternal organizations and professional associations that want to promote study in a particular field. Scholarships and grants are also provided by religious and ethnic groups, labor unions, etc.

Applying for Financial Aid

Application procedures generally vary from school to school. To find out how to apply for financial aid, contact the financial aid office or dean of students' office at the college you are planning to attend. Your counselor, school librarian or the public library are also good sources of information. Some general tips on applying for financial aid follow:

- Request information on financial aid when you write for an admissions application form. Indicate that you are applying for as many types of aid as possible.
- In the U.S., you will probably be asked to complete one of three common forms: the *Application for Federal Student Aid* (AFSA), the *Financial Aid Form* (FAF) or the *Family Financial Statement* (FFS). These forms are often available from your high school counselor or local college financial aid officer.
- Estimate your assets, debts and needs as accurately as possible.
- Fill out the applications promptly and thoroughly. Ask for help if confused, because filling out a form incorrectly could cause delay and ultimately prevent you from receiving aid.
- To apply for a U.S. *Guaranteed Student Loan,* you must fill out a different form from the others. Get one from your bank or S&L after you have been accepted by a school.

Cost-Cutting Measures

- Attend a community college first, which is less expensive than a four-year school; then transfer.
- Get credit for what you know. Sometimes schools give academic credit for learning gained through experiences in a job, volunteer work or through travel.
- Earn up to two years of postsecondary credit by taking tests conducted by the *College Level Examination Program* (CLEP). For further information on this, see page 34.
- The *Advanced Placement Program* (APP) gives you a chance to take college level courses while still in high school. Ask your guidance counselor about APP or see page 34 if you wish to obtain further information on this.
- Attend a summer school or night school, take a three-year degree program, or attend a weekend college that will permit you to handle a full-time job during the week.

Operating Your Own Business

You can invest in a business either by starting one yourself or by buying an ongoing firm. Basically there are three ways of doing business:

- **Sole proprietorship,** in which the owner controls all the assets, is responsible for all debts, makes all the management decisions, reaps all the profits and takes all the losses. Sole proprietorships are the simplest and easiest of all business structures to set up.
- **Partnerships,** in which two or more people join together to run a business, each of whom contributes money and/or skills, labor, property. In turn, they share proportionately in the profits of the business. A legal agreement should be made in writing, which states the capital investment and duties of each, and the ways that profits and losses are to be shared.
- **Corporation,** a legally organized business that exists apart from its owners. It is responsible for debts only to the extent of its assets.

Corporation shareholders are paid by dividends from the profits that remain after all expenses have been paid.

The Pros and Cons

Owning a business is especially important to people who are unusually self-reliant, cherish their freedom and like to be in control. On the other hand, owning a business involves uncertainty, both as to the rate of return and the possibility of recouping the investment. The business may eventually require a greater infusion of money than expected, and the investment can hardly be classified as liquid. Should you be forced to sell it prematurely, there is a good prospect of monetary loss.

Considerations

Before investing in any business, consider the following points.

- **Your personal qualifications.** Have you already demonstrated the skills required to provide the product or service you plan to sell? Have you some awareness of the principles of business management? If not, it may be wise to work for someone else until you learn the technical aspects involved. Is your temperament suited to running a business? Do you have sufficient time and energy to build it up and keep it running smoothly at a profit?
- **Available capital.** Do you have sufficient funds to finance the establishment of the business and provide for your living expenses until it is on a paying basis?

Retirement Planning

- **The type of business in which to invest.** Is there a good existing or potential market for the product or service you plan to sell? Is it a growing, stable or declining market? What share of this do you need to make a profit? How do you plan to obtain this share and how long will it take?
- **The location.** Vital to the business' success is a good location. What is the potential market for your product in the areas you are considering?
- **The importance of engaging competent professional help.** A lawyer is needed to insure that the title transfer and other legal matters concerning the business are handled legally and competently. Look for an accountant who has successfully helped others get started in business, if possible. Seek a bank that has a special program for those starting small businesses.
- **Insurance protection.** Comprehensive fire insurance coverage and comprehensive general liability insurance coverage are mandatory.

You have a good chance of spending as much as 20 years or more in retirement—up to one-fourth of your life. To maintain your standard of living, you'll probably need at least two-thirds of your preretirement income, and the sooner you begin planning for this, the better. A tremendous buildup of capital can occur if you begin early. Ideally, a retiree's income comes from three sources:

- a government retirement program (Social Security in the U.S.; the Canada Pension Plan and/or Old Age Security, a Guaranteed Income Supplement or a Spouse's Allowance in Canada).
- an employer-sponsored pension plan.
- personal retirement-oriented savings and investments, an IRA or Keogh (a Registered Retirement Savings Plan in Canada), endowment or annuity income; stocks, bonds and real estate.

Government Retirement Programs

Social Security and the Canada and Quebec Pension Plans were created to provide a supplementary income—a *minimum* standard of living—for retirees, not to be their sole source of support.

United States

Social Security is financed by a special tax, which 9 out of 10 U.S. workers contribute to while employed. Every payday, a set percentage is deducted from each employee's paycheck and sent with the employer's contribution to the federal government. On a pay stub Social Security deductions are referred to as either Social Security tax or F.I.C.A. (Federal Insurance Contributions Act). Self-employed workers must also pay a specified amount into Social Security.

Social Security is essentially an *income transfer* program, in which the compulsory taxes are immediately transferred to eligible individuals. In addition to retirement income, the **Social Security Act** also provides survivorship, disability and medical benefits, but a discussion of these is beyond the scope of this booklet.

There is little or no correlation between the contributions made and the benefits received. Benefits are figured from the worker's covered earnings. Average retirees have received far more than they have paid in, however, and monthly benefits have kept pace with inflation. Here are some of the most important things you should know about Social Security. (Check with the local agency offices for additional information.)

- You can apply for a Social Security number at any Social Security office, but be sure to bring proof of your date of birth, citizenship or lawful alien status and identity. You will receive your number and card in about two weeks. To replace a lost card, change your name on the records, or claim benefits, contact your local office. Look in the telephone directory under "Social Security Administration."
- Your record of earnings under Social Security is kept under the name and account number which appears on your card. Your employer will provide you with a statement of wages paid and Social Security taxes withheld (Form W-4) at the end of each year or at the time you leave the job. Be sure to keep these records.

- Fill out a wage statement request card (Form SSA-7004), which may be obtained from any Social Security office, and send it to the address indicated, at least every three years, to see that its record of your earnings agrees with the one you've kept through your tax returns. Any error must be corrected within three years, three months and fifteen days.
- The local Social Security office will also obtain an estimate of your benefits for you if you fill out Form 7004, available free.
- You qualify for full retirement benefits at age 65, if you have accumulated the minimum requirement of work-time credits. You can take an early retirement at age 62, but your benefits will be permanently reduced because the payout is over a longer time period. Monthly benefits to survivors of an insured worker are equal to a certain percentage of the worker's benefits. It should be noted that the age for full retirement will increase in the year 2005.
- Benefits under Social Security are not paid automatically—*you must make a claim.* Employees at the nearest office can explain the benefits to you and the requirements you must fulfill in order to become eligible for payment.
- Some Social Security benefits are now taxed, but generally only those of people who have substantial other income.
- The money you make on investments will not affect the amount of your Social Security check, but the money you make from a job can reduce your monthly payment up until age 70.

Canada

The federal and Quebec governments have compulsory pension plans to which almost all employers and employees must contribute. Here are some facts Canadians should know about them:

- To be eligible for Canada Pension Plan benefits, you must be at least 65, have a social insurance number, have worked in pensionable employment and paid premiums into the fund.
- The pension amounts to approximately 25 percent of the contributor's insured earnings, averaged over the contributory period.
- You are entitled to have your future pension calculated at the local office of the Canada Pension Plan once each year. This will help you determine how much additional retirement income you will need.
- If your contributions have not all been credited to your account, you are likely to get a smaller pension unless the error is discovered fairly soon. Employees at the local office of the CPP can tell you how to find out if you have been getting proper credit.
- Your pension is not paid automatically; you must apply for it in writing through the nearest District CPP office. This may be done up to six months prior to your 65th birthday. It may be possible to receive a pension at age 65 and still work.
- Canada Pension Plan benefits are retroactive: if a person who was eligible to receive the benefits died without applying for them, family members or trustees of the estate may do so within one year after the death.

The federal government of Canada also sponsors three noncontributory programs: Old Age Security, Guaranteed Income Supplement and Spouse's Allowance. Old Age Security is paid to all Canadian residents over the age of 65. Elderly people who have limited income and meet certain criteria may also be eligible for a Guaranteed Income Supplement and a Spouse's Allowance.

Employer-Sponsored Plans

Employer-sponsored pensions and the thrift, profit-sharing, and salary reduction plans that may substitute for or supplement them are a major source of retirement income for many. As is the case with Social Security, however, they usually cannot be depended on for full support—at least not in the manner desired. Furthermore, even when working for a company with a pension program, you cannot be 100 percent sure of receiving one. Certain conditions must be met, not only by you but by your employer. It is vital that you examine your benefits program carefully to learn where you stand.

Pension Plans

In the U.S., the federal *Employee Retirement Income Security Act* (Also known as the Pension Reform Act or ERISA) established minimum standards for most existing and future private benefit and welfare plans.

Although employer-sponsored plans vary widely in funding, vesting, retirement eligibility requirements and benefits offered, there are standard features you should be familiar with. A job applicant would do well to ask the following questions about the plan offered by a prospective employer.

- Is the plan *noncontributory* or *contributory*? In a noncontributory plan the employer pays all the costs. The amount an employee accrues depends on the "vesting" provisions of the plan. (Vesting is the process by which employees accumulate permanent rights to pension benefits, which cannot be taken away even if they quit or are fired.) Employees participating in contributory plans pay part of the costs. Upon termination, they are entitled to the amount they have contributed and the vested portion of their employer's contribution.
- When will I be fully vested? You cannot take nonvested credits with you when you change jobs.
- Will I receive my benefits in a lump sum or in installments? If the latter, are the payments guaranteed for life from the time I retire?
- What, if anything, would my beneficiaries receive if I died before retirement? What, if anything, would I receive if I became disabled?
- Is the plan set up to keep pace with inflation? (Few employer-sponsored plans make cost-of-living adjustments.)

Remember, you have to keep track of your pension rights; a one-time examination of the plan is not enough. Its provisions could be amended from time to time and your benefits will change with your salary and service. You have the legal right to a statement from your employer that tells you how much you would get at retirement age if you stopped working at the time the statement was issued. Checking your pension situation periodically is an absolutely essential part of retirement planning.

Other Employer-Sponsored Plans

These include thrift plans, profit-sharing plans and salary-reduction plans.

Thrift plans. The employer matches a portion of the funds that the employees have deducted from their paychecks—typically from two to six percent of after-tax pay—and invests the money for the employees. Many companies match up to 50 percent. Employees can withdraw their own funds when desired and without paying taxes on them, because the contributions came from after-tax income. They usually have to wait a specified period of time before becoming eligible to withdraw their company's matching contribution.

Profit-sharing plans. The employer invests a portion of the company's annual earnings in various investment vehicles—bonds and annuities, e.g.—for employees. The profits are then divided among all the participants. This income cannot be counted upon in a year when the company has little profit to invest. Employees can take either the stock or its cash equivalent with them when they retire and, if vested, may take their share if they leave the company prior to retirement.

Salary-reduction plans. These are long-term tax shelters and savings vehicles also known as 401(K) or "cash or deferred arrangements" (CODAs), in which contributions are taken directly from paychecks. Participating employees may, subject to some restrictions, put a percentage of income up to a maximum of $7,000 into a company savings or profit-sharing plan and in doing so defer part of their pay. You are limited to whatever investment options your company makes available. Some firms match a portion of employee contributions.

The employee postpones payment of income taxes on the amount deferred until the money is withdrawn. If the money is distributed at retirement (or at any time after you have reached 59½) you are permitted to use five-year averaging—i.e., the tax is, in most cases, calculated as if the money were to be paid out in equal amounts over the next five years. Premature withdrawals are taxed at ordinary income rates and come with a stiff penalty, unless the money accumulated is rolled into an IRA.

Individual Retirement Programs

It is to everyone's advantage to have some kind of individual retirement program: an IRA or Keogh (an RRSP in Canada), an annuity or other form of savings and investments, particularly for those not covered by pension plans. Even those who are covered by pensions—private plans and Social Security or the Canada Pension Plan—should have supplementary sources of income if they wish to maintain their preretirement standard of living.

IRAs and Keogh Plans

Individual Retirement Accounts (IRAs) and Keogh plans are available only in the U.S. With an IRA you can invest up to $2,000 of salary per year ($2,250 with a nonworking spouse) into a government-sponsored account. With the passage of the **Tax Reform Act of 1986,** however, certain restrictions do apply regarding your ability to deduct this contribution from your taxable income. In all cases, the interest earned on an IRA is deferred until the money is withdrawn, allowing the income to grow and compound. After age 59½, or in case of disability, the money can be withdrawn but is taxable at regular rates. (You can always withdraw your capital before then if you are willing to pay a 10 percent penalty plus taxes due.) IRA holders are *required* to begin withdrawals at age 70½. Make your contribution as early in the calendar year as you can, so your money can start working for you.

Keogh plans are similar to IRAs but for the self-employed only. Contributions are limited to 25 percent of net business income or a maximum of $30,000, and you may also make contributions for employees.

There are many different kinds of government-approved IRAs, but the following are used most often: savings accounts and certificates of deposit in banks, S&Ls, mutual savings banks and credit unions. Mutual funds, special U.S. Treasury retirement bonds, annuities and endowments from insurance companies are also popular. Some sponsors charge fees, others little or nothing.

Rates of return vary widely, so in order to find one that best suits your needs and objectives, investigate several different kinds. Carefully read the terms—including the fine print—to determine exactly what you're getting. The law allows you to transfer from one kind of IRA to another every year.

RRSPs in Canada

Canadian workers can contribute up to 20 percent of earned income or $3,500, whichever is less, to a company pension plan, a deferred profit-sharing plan and a *Registered Retirement Savings Plan.* Self-employed individuals and those who work where there are no pension plans can contribute up to $7,500 annually. (Dollar amounts for RRSPs are currently under review.) This permits participants to invest in a range of securities with tax-deductible dollars. The interest earned is also untaxed until retirement, when you can take out the money accumulated or buy an annuity. A retirement plan can also be set up for a spouse. RRSPs are available from various authorized banks, trust companies, insurance companies and some investment companies. All Canadian taxpayers with earned income can invest in RRSPs at any age up to the end of the year they reach 71. For more information on these plans, contact your District Taxation Office.

Estate Planning

Annuities

Annuities are a type of savings plan in which the investor pays a predetermined sum to a company and at a specified age receives the money with interest in monthly payments. Available through stockbrokers as well as insurance agents (sometimes for a fee), annuities protect you against the risk of outliving your savings.

They can be purchased for a lump sum (single-premium type) or in installments. A "straight life" annuity will provide income only as long as you live; another type pays any amount remaining after your death to a beneficiary; while a "joint and survivorship" annuity provides income first for two people and then for the survivor. There also are variable annuities, in which the income depends on the return on the investments made with the investor's money.

Tax-deferred annuities are often bought with the cash value of a life insurance policy. Most require a $5,000 to $10,000 initial deposit in after-tax dollars. The interest rate is usually guaranteed only for one to five years, after which it will fluctuate with the prevailing money market rates. The earnings accumulate untaxed until after retirement as a rule, when you have several options. You could take repayment in cash and pay all taxes on your accumulated earnings, or you could convert the annuity into another one that provides you with a lifetime monthly income. Then the taxes would be levied only on the income part of the monthly payment: the larger portion of it would be considered return of the principal.

A real disadvantage to some annuities is that the monthly income is fixed, regardless of the inflation rate, and secondly, a tax-deferred annuity can tie up your money for years.

An estate consists of the assets—cash, a car, furniture, real estate, stocks and bonds, for example—left by a person at death. The only way you can be sure that your estate will be distributed according to your wishes is to make a will and, if necessary, set up a trust. It is important for even those with small estates, married or single, to make a will, or the state will allocate your assets as its laws decree. This could mean real difficulties for your loved ones.

Wills

With a valid will you can:

- decide who your heirs will be and exactly what each will get.
- appoint a guardian for any dependents.
- name an executor.
- enable your beneficiaries to avoid a long, possibly complicated probate.
- minimize estate taxes, legal and accounting fees and red tape.
- help to prevent family conflict.

It is recommended that you engage a lawyer to draw up your will, because if this is not done exactly according to the laws of your state, it could be declared invalid. Be sure to discuss fees beforehand. Caution: *Each* spouse should make a will.

Trusts

A trust is a legal arrangement by which you transfer assets such as money or real estate to a bank or trust company, to be managed by a trustee on behalf of beneficiaries named by you. The funds invested by the trustee provide income for the beneficiary. Trusts are often useful to people of even modest means, because they are set up for the sake of dependents such as minor children and aged parents who would have difficulty managing an inheritance. A trust offers several advantages:

- Taxes are likely to be less than those paid on an outright inheritance.
- The beneficiary cannot spend the money all at once.
- The funds are administered by experienced managers.

There are three basic types of trust agreements: living, testamentary and insurance trusts. A *living trust* operates while you are alive. You tell the trustee how the payments are to be made and the principal distributed. A *testamentary trust*, established in your will, is to become effective upon your death. An *insurance trust* consists of the proceeds of the life insurance that becomes available after your death. The funds are administered according to agreed-upon arrangements. Discuss these with your banker to determine which one is most appropriate for your situation. Also ask about administrative costs.

Keep in mind that a will and most trusts can be changed up to the time of death. Review them periodically and make revisions as the situation changes. Keep your original will and trust documents in your lawyer's safe or other secure place. Keep only *copies* of these documents in your safe deposit box, unless your state laws permit survivors ready access to the box after your death.

Conclusion

In today's financial arena you can no longer invest your money in one place and leave it there unattended. Periodically you will need to review your investment portfolio as market conditions, goals and personal circumstances change.

Are your investments keeping pace with inflation? Are you reaching your financial objectives? Are you satisfied with your yield? Managing your finances wisely means continually studying the market, investigating the alternatives and shopping comparatively to obtain the best return on your saver/investor dollars.

Glossary of Savings and Investment Terms

Annual report. A financial statement issued by a corporation which outlines its assets, liabilities, earnings and performance.

Assets. That which you own, such as a house, car, stocks and bonds.

Asset management accounts. Specialized accounts offered by brokerage firms which provide an automatic line of credit, check-writing privileges, a major credit card and the investment of idle cash into a money market fund.

Balanced funds. Mutual funds which distribute investments among bonds, common and preferred stocks, with safety of principal and stability of income as their main objectives.

Bear market. A declining stock market.

Blue-chip stocks. Stocks issued by companies well-known for high-quality products and services and their ability to make money and pay dividends.

Bonds. A debt of the federal, state or provincial government, a city or corporation, promising to pay a fixed rate of interest for a specified length of time and to repay the loan upon its maturity.

Brokers. Agents who buy and sell stocks, bonds, commodities, etc., and receive a commission for the service.

Bull market. An advancing stock market.

Capital. Money you have available for investments or retirement.

Capital gains or losses. The profit or loss resulting from the sale of assets.

Capital growth. An increase in the market value of your investments.

Certificates of deposit (CDs). Term saving certificates which pay a fixed rate of interest and are available through financial institutions. Terms typically range from 7 days to 10 years.

Collectibles. Tangible items of rarity or artistic value such as paintings, antiques, books and stamps which are expected to increase in value.

Commodities. Materials such as grains, precious metals, oil and lumber which are traded on the commodity exchange.

Common stock. A security which represents a share of ownership in a company.

Discount brokers. Brokers who trade securities for lower fees. They do not provide investment advice.

Diversification. The practice of spreading your assets among several categories of investments to reduce risks.

Dividends. The amount paid from company profits to stockholders. Preferred stock pays a fixed amount. Dividends for common stock may fluctuate with corporate profits.

Dollar cost averaging. A policy of investing equal amounts of money at regular intervals. Over time, you theoretically buy more shares when the price is low and fewer shares when the price is high.

Dow Jones Industrial Average (DJIA). An indicator of stock market performance derived from thirty industrial stocks listed on the New York Stock Exchange.

Equity. The market value of property minus that which is owed.

Financial supermarkets. One-stop financial centers which combine the functions of a financial institution, insurance company, brokerage firm and credit-card company.

Growth funds. Mutual funds whose primary objective is capital appreciation. These funds invest in large companies and tend to be more stable and consistent performers.

Growth-income funds. Mutual funds whose objective is both current income and long-term growth.

Guaranteed investment certificates (GICs). Canadian savings certificates which mature in one to five years and have a set interest rate.

Individual retirement accounts (IRAs). Tax-deferred retirement savings plans which allow workers to place a portion of their income into a retirement account of their choice.

Investment clubs. A group of people who meet regularly and pool their resources and ideas to invest in stocks.

Investment objectives. The goals which an investor or mutual fund pursues—long-term capital growth, income or tax savings.

Jumbo deposits. Amounts of $100,000 or more which are deposited for 14 days to 10 years.

Keogh accounts. Tax-deferred savings plans which allow self-employed individuals to contribute a set portion of income to a retirement account.

Leverage. The effect of using borrowed money to magnify potential profits.

Liabilities. That which you owe, such as mortgage debt, an automobile loan and other installment debts.

Limited partnerships. Tax-sheltered investments involving a partnership between you and other investors. The sponsor or general partner manages the partnership and uses the cash of the "limited partners" for ventures such as gas or oil exploration, real estate or equipment leasing.

Liquidity. The ease with which you can convert an asset into cash and still retain your initial investment.

Load funds. Mutual funds which charge a sales commission.

Money-market deposit accounts (MMDAs). Insured savings accounts which earn interest at rates competitive with money market funds. A minimum deposit may be required. If the account balance falls below the minimum, a service fee may be charged and the interest rate reduced.

Money market funds. Mutual funds which invest in U.S. Treasury bills, government bonds, certificates of deposit and commercial paper.

Mutual funds. Investment companies which pool money from thousands of shareholders and invest it with a specific objective in mind: income, growth, tax savings.

Negotiable order of withdrawal (NOW) accounts. Interest-bearing checking accounts which pay variable interest rates.

Net worth. All that you own minus all that you owe.

No-load funds. Mutual funds which do not charge a sales commission.

Odd lot. An amount of stock which is less than 100 shares.

Over the counter (OTC). A way of trading stocks which are not listed on a stock exchange. Brokers may or may not be members of a stock exchange.

Passbook savings accounts. Savings accounts which are available through financial institutions and pay variable rates of interest.

Penny stocks. Low-priced stocks, often highly speculative, which sell for less than $1.00 per share.

Portfolio. A collection of stocks, bonds and other investments which you own.

Preferred stock. A type of stock which pays a fixed dividend to investors. Shareholders normally receive dividends before any are paid to common stockholders.

Prospectus. A written document which describes investments offered for sale to the public.

Real estate investment trusts (REITs). Investments which are similar to mutual funds, except that your capital is used to buy property or lend to developers.

Registered retirement savings plans (RRSPs). Canadian tax shelters which allow investors to set aside a portion of their income for retirement.

Round lots. One hundred shares of stock or a multiple thereof.

Specialized funds. Mutual funds which limit their investments to a specific industry or location.

Stock exchange. A place where stocks are bought and sold, such as the New York Stock Exchange or the Toronto Stock Exchange.

SuperNOW accounts. Interest-bearing checking accounts which have no interest-rate ceilings. A minimum balance may be required. If the account balance falls below the minimum, a service fee may be charged and the interest rate reduced.

Tax shelters. Investment opportunities which postpone or reduce taxes. They can include everything from retirement savings plans to oil exploration.

Term deposits. Long-term Canadian investments which pay a guaranteed interest rate and mature on a specific date.

Treasury bills (T-bills). Short-term debts issued by the government, which are available through financial institutions and Federal Reserve Banks.

Yield. The return on your investment, generally expressed as a percentage.

Suggested Resources

Organizations

Upon written request, many trade associations, businesses and government agencies provide information on particular aspects of saving and investing. Some of these are listed below.

United States

American Association of Individual Investors
612 North Michigan Avenue
Chicago, Illinois 60611

American Bankers Association
Personal Economics Program (PEP)
1120 Connecticut Avenue, N.W.
Washington, D.C. 20036

American Council of Life Insurance
Education Relations and Resources
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

American Stock Exchange
86 Trinity Place
New York, New York 10006

Chicago Board of Trade
Education and Marketing
Literature Services
141 West Jackson Boulevard
Chicago, Illinois 60604

College Level Examination Program Services (CLEP)
P.O. Box 6600
Princeton, New Jersey 08541

Federal Reserve System
Publication Services
Mail Stop 138
Washington, D.C. 20551

Institute of Certified Financial Planners
Two Denver Highlands
10065 East Harvard Avenue
Suite 320
Denver, Colorado 80231-5965

The Investment Company Institute
Public Information Department
1600 M Street, N.W.
Washington, D.C. 20036

National Association of Real Estate Investment Trusts (NAREIT)
1101 17th Street, N.W.
Suite 700
Washington, D.C. 20036

New York Stock Exchange
11 Wall Street
New York, New York 10005

No-Load Mutual Fund Association, Inc.
11 Pennsylvania Plaza
Suite 2204
New York, New York 10001

REAL ESTATE SECURITIES AND SYNDICATION INSTITUTE®
430 North Michigan Avenue
Chicago, Illinois 60611

Securities and Exchange Commission
Office of Consumer Affairs and Information Services
450 5th Street, N.W.
Washington, D.C. 20549

Small Business Administration
Office of Consumer Affairs
1441 L Street, N.W.
Room 503-D
Washington, D.C. 20416

Social Security Administration
6401 Security Boulevard
Baltimore, Maryland 21235

Canada

The Canadian Bankers' Association
Suite 600, The Exchange Tower
P.O. Box 348
Two First Canadian Place
Toronto, Ontario M5X 1E1

Canadian Securities Institute
33 Yonge Street
Suite 360
Toronto, Ontario M5E 1G4

Books, Pamphlets and Periodicals

There are numerous publications available which cover nearly every aspect of saving and investing. Some of these are listed below for those wishing to study this subject in greater depth. Addresses for selected publications are given under *Organizations*.

United States

Changing Times. The Kiplinger Washington Editors, Inc. Editors Park, Maryland 20782. Monthly.

College Financial Aid Guides. Octameron Associates, P.O. Box 3437, Alexandria, Virginia 22302. Free catalog.

Cooperative Education. National Commission for Cooperative Education. P.O. Box 775, Boston, Massachusetts 02117. Free.

A Guide to the Advanced Placement Program. AP Services, CN 6671, Princeton, New Jersey 08541. Free.

The Investor's Information Sourcebook. Lesko, Matthew. Harper & Row, Publishers, Inc. 10 East 53rd Street, New York, New York 10022. $9.95.

A Lifetime Strategy for Investing in Common Stocks. Cloonan, James B. American Association of Individual Investors. Free with self-addressed, stamped envelope.

Money. P.O. Box 51633, Boulder, Colorado 80322-1633. Monthly.

Money Dynamics for the 1990s. Van Caspel, Venita. Simon & Schuster, Mail Order Billing, 200 Old Tappan Road, Old Tappan, New Jersey 07675. $22.95. Make check payable to Simon & Schuster.

No-Load Mutual Fund Association Directory. No-Load Mutual Fund Association, Inc. $5.00.

Acknowledgments

The Student Guide, Five Federal Financial Aid Programs. U.S. Department of Education. Order from Student Guide, Consumer Information Center, Pueblo, Colorado 81009. Free.

Sylvia Porter's Personal Finance Magazine. Box 1928, Marion, Ohio 43306. Bimonthly.

Sylvia Porter's New Money Book for the 80's. Porter, Sylvia. Avon Books, Mail Order Department, Box 767, Dresden, Tennessee 38225. $10.95. ($1.25 postage and handling)

Tips on Saving and Investing. Council of Better Business Bureaus, Inc. 1515 Wilson Boulevard, Arlington, Virginia 22209. $1.00 with a self-addressed, stamped envelope.

United States Treasury Securities: Basic Information. Federal Reserve Bank of Dallas. Public Affairs Department, Station K, Dallas, Texas 75222. Free.

Canada

Investment Terms and Definitions. The Canadian Securities Institute. $1.50.

Personal Finance for Canadians. Second Edition. Brown, Kathleen H. Prentice-Hall Canada Inc., 1870 Birchmount Road, Scarborough, Ontario M1P 2J7. $23.33.

In order to present a well-balanced point of view in this booklet, a number of persons were consulted and many publications reviewed. This booklet represents a synthesis of information rather than the viewpoints of individuals or associations. For assistance in helping us obtain a clearer understanding of the subject, we give grateful acknowledgment to:

CHRISTOPHER ALFIREVIC, *Marketing and Public Relations Manager, REAL ESTATE SECURITIES AND SYNDICATION INSTITUTE,* Chicago, Illinois.

AMERICAN BANKERS ASSOCIATION, Washington, D.C.

AMERICAN COUNCIL OF LIFE INSURANCE, Washington, D.C.

LAURA J. BERGER, *Executive Director, No-Load Mutual Fund Association, Inc.,* New York, New York.

MARGARET A. CHARTERS, *Director, Consumer Studies Program, College for Human Development, Syracuse University,* Syracuse, New York.

CHICAGO BOARD OF TRADE, Chicago, Illinois.

JAMES B. CLOONAN, *President, American Association of Individual Investors,* Chicago, Illinois.

AMY COUSINEAU, *University of Guelph,* Guelph, Ontario.

LES DLABAY, *Department of Economics and Business, Lake Forest College,* Lake Forest, Illinois.

NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS, Washington, D.C.

NEW YORK STOCK EXCHANGE, New York, New York.

LINDA ROUTLEDGE, *Consumer Education Adviser, The Canadian Bankers' Association,* Toronto, Ontario.

SOCIAL SECURITY ADMINISTRATION, Baltimore, Maryland.

DAVID WEST, *Supervisor of Education, Canadian Securities Institute,* Toronto, Ontario.

RITA WOOD, *Extension Home Economist, Rutgers Cooperative Extension,* Mount Holly, New Jersey.

You and Consumer Education

One of life's important concerns is the management of personal economic affairs to obtain the greatest satisfaction from the level of one's income. Essential to the development of economic competence is the ability to plan, organize, control and evaluate the use of resources to achieve goals—whether they relate to choosing a job, earning, spending, saving, borrowing, investing or making decisions for the future.

As individual consumers, teachers or leaders of consumers, we have the challenge to understand, communicate and apply basic principles of economics to everyday financial concerns. This will strengthen individual and family living and contribute to the development of more educated, competent citizens in our economy.

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Since 1930, MMI booklets and audiovisuals have served individuals, families and groups with help on effective use of income. The recognition given these materials is due to their objective approach; well-organized, accurate and up-to-date information, freedom from advertising; and the cooperation of recognized authorities in preparation.

Money Management BOOKLETS
MMI booklets cover all important areas of personal and family finance. They are available individually or as a library of 10 booklets.

YOUR FINANCIAL PLAN presents a personalized easy-to-use plan for managing income. Each $1.00

MANAGING YOUR CREDIT presents a comprehensive and objective guide to understanding consumer credit and managing credit dollars. Each $1.00

CHILDREN AND MONEY MANAGEMENT is for parents and teachers who wish to instruct children in this important subject. Each $1.00

YOUR FOOD DOLLAR offers information on developing a shopping list, deciding where to shop, selecting the best buys and reading food labels. Each $1.00

YOUR HOUSING DOLLAR shows how to determine housing needs and meet housing costs whether you rent, buy or build. Each $1.00

HOME FURNISHINGS AND EQUIPMENT offers shopping information on buying major appliances, home furnishings, telephones and home electronics equipment. Each . . $1.00

YOUR AUTOMOBILE DOLLAR discusses buying, maintaining and operating a car. Each $1.00

YOUR TRAVEL DOLLAR shows how to fit transportation, lodging, meals and incidentals into your travel budget, at home or abroad. Each $1.00

YOUR SAVINGS AND INVESTMENT DOLLAR offers guidance on building financial security, choosing financial products and services and selecting investments for growth and income. Each $1.00

YOUR INSURANCE DOLLAR introduces the four basic types of insurance—health, life, auto and homeowners—and offers guidelines for buying policies to meet present and future needs. Each $1.00

Money Management BOOKLET LIBRARY includes all 10 booklets in an attractive library box. Series $10.00

YOUR GUIDE FOR TEACHING MONEY MANAGEMENT presents concepts, learning experiences and resources for teaching personal economics to students of different ages and abilities. Can be used to teach a single unit or complete course. Each $2.00

MIND YOUR MONEY LEAFLETS—When You Shop, When You Spend, When You Use Credit—are designed for use with groups of limited income and/or reading ability. They provide a basis for learning effective money management.
Per set $1.00

Money Management AUDIOVISUALS
MMI audiovisual kits are vivid art presentations of real-life situations illustrating good financial management. Each kit comes with cassette, teacher's guide and spirit masters. MMI audiovisuals can be used as individual teaching aids or to supplement MMI booklets.

GO FOR THE GOLD introduces first-time investors to different financial products and services as well as investments for growth and income. 18 minutes.
Filmstrip kit $8.00
Additional set of spirit masters $1.00

WINNING THE MONEY GAME explains how to effectively manage income by setting goals, making choices and developing a financial plan based on personal values and individual needs. 15 minutes.
Filmstrip kit $8.00
VHS Video kit $12.00
Additional set of spirit masters $1.00

CREDIT—HANDLE WITH CARE explains how to establish credit, why credit costs vary and the kinds of questions asked on credit applications. 20 minutes.
Filmstrip kit $8.00
Additional set of spirit masters $1.00

FOOD DOLLARS AND SENSE provides the guidance and information needed to make the most of food dollars. 19 minutes.
Filmstrip Kit $8.00
Additional set of spirit masters $1.00

WHEELS, DEALS AND YOU discusses planning a car purchase, buying new and used cars, and financing, insuring and maintaining the investment. 19 minutes.
Filmstrip kit $8.00
Additional set of spirit masters $1.00

Money Management FILMSTRIP LIBRARY includes a boxed set of three personal finance filmstrips: WINNING THE MONEY GAME, CREDIT—HANDLE WITH CARE and GO FOR THE GOLD, with accompanying materials.
Set $20.00

Quantity Discounts—Less 10% on orders over $100.

To order or to inquire about any of the above materials, write to:

Money Management Institute

HOUSEHOLD FINANCIAL SERVICES
2700 Sanders Road
Prospect Heights, IL 60070

HOUSEHOLD FINANCIAL SERVICES OF CANADA
85 Bloor Street East
Toronto, Ontario M4W 1B4

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2700 Sanders Road
Prospect Heights, Illinois 60070

In Canada:
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85 Bloor Street East
Toronto, Ontario M4W 1B4

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